

VZCZCXYZ0001
OO RUEHWEB

DE RUEHFR #0312/01 0261447
ZNR UUUUU ZZH
O 261447Z JAN 07
FM AMEMBASSY PARIS
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4461
INFO RUEHSS/OECD POSTS COLLECTIVE
RUEHBK/AMEMBASSY BANGKOK 0305
RUEHEG/AMEMBASSY CAIRO 0927
RUEHBJ/AMEMBASSY BEIJING 1397
RUEHBR/AMEMBASSY BRASILIA 1750
RUEHJA/AMEMBASSY JAKARTA 0599
RUEHKL/AMEMBASSY KUALA LUMPUR 0245
RUEHMO/AMEMBASSY MOSCOW 5719
RUEHSA/AMEMBASSY PRETORIA 1243
RUEHSG/AMEMBASSY SANTIAGO 0428
RUEHTV/AMEMBASSY TEL AVIV 0602

UNCLAS PARIS 000312

SIPDIS

FROM USOECD PARIS

SENSITIVE - NOT FOR INTERNET DISTRIBUTION
SIPDIS
STATE FOR E, EB, EUR/ERA AND IO/S, NSC FOR MCCORMICK

E.O. 12958:N/A
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [OECD](#) [AORC](#)
SUBJECT: OECD: MISSION VIEWS ON ENLARGEMENT

REF: (A) PARIS 160 (B) 06 PARIS 7864 (C) 06 PARIS 7734 (D) 06 PARIS 7438 (E) 06 PARIS 7053 (F) 06 PARIS 6944 (G) 06 PARIS 6848

11. (SBU) Summary: USOECD reiterates the importance of having the OECD's impending enlargement include a major emerging economy to ensure the Organization's viability and its effectiveness as a tool to promote a U.S.-friendly global economic system. As a virtual invitee since 1997, Russia presents a special case in this regard. Though not supportive of the desired diversity and global reach we should try to engineer, admission of at least one of the "EU 8" will probably be the price of enlargement that EU members exact from non-EU members. Mission has made progress in winning a new assessment framework that would freeze our contribution in real terms, even as financing requirements - linked to enlargement and enhanced engagement - increase. This progress is, however, contingent on a successful outcome to the enlargement exercise. Meanwhile, members are converging on a framework for enhanced engagement that supports partnership with major economies, maintains our work in the MENA and African regions, and serves as a "farm system" for prospective members among emerging economies. End summary.

12. (SBU) USOECD understands that the interagency will meet January 29 to discuss OECD enlargement. Mission believes that a well-considered enlargement and enhanced engagement process is crucial to the continuing relevance of the OECD and to its ability to play a significant role in shaping rules for economic cooperation and development on a global level. This cable provides USOECD's views on some of the key outstanding questions that the interagency will address:

- * which, if any, of the BRICS (Brazil, Russia, India, China, South Africa) should be considered for inclusion in a first round of enlargement?
- * what conditions for membership/accession might we wish to impose so that those tapped will not accede until they share our values and make a significant contribution to the work of the OECD?
- * how should the aspirations for membership by the eight EU members that are not now in the OECD be addressed?
- * how can we ensure the diversity of representation that non-European members such as Australia, Canada, Japan, Korea, Mexico and New Zealand demand reflects the dynamic character of today's global economy?
- * how can the OECD best employ its model of enhanced engagement to

expand its influence with strategically important non-member countries and to help prepare some key countries for membership?

13. (SBU) While the OECD has been focused on enlargement for the past several years, Council discussion of this critical issue only moved into full gear in September. Over the course of a number of sessions, the Council has made assessments of individual potential candidates in light of the so-called "Noburu criteria" - like-mindedness, significant player, mutual benefit, and global considerations (i.e., geographic diversity) -- and discussed the Secretary General (SYG)'s "Way Ahead" paper (see reftels). In

SIPDIS

addition, the Council has asked the Special Group on Financing Enlargement and Enhanced Engagement to review and make recommendations on the financial arrangements that enlargement will require of OECD members (both current and potential). At the same time, the External Relations Committee (ERC) has developed a model for enhancing the OECD's engagement with countries of strategic interest to the OECD that are not members of the Organization. Taken together, how the OECD deals with enlargement, financing arrangements and enhanced engagement will go a long way toward determining the OECD's future relevance and usefulness to U.S. global economic interests.

Which of the BRICS - Brazil, Russia?

14. (SBU) USOECD has argued that the BRICS need to be part of any enlargement and enhanced engagement scenario. If the OECD is to serve as a "hub for globalization," to extend the reach of its (clear pro-U.S.) policymaking model, these major emerging economies belong in its work. An enlargement that does not include recognition of their growing influence will be widely viewed as inconsequential and evidence of the Organization's insularity and decline. Of the BRICS, several members (including France, Turkey, and the Nordics) and the SYG are pushing for Russia to join in a first tranche; Mexico and other non-European members look favorably at Brazil as a non-European "diversity" candidate. While Mission appreciates that both countries raise a host of concerns, we firmly believe that including at least one on the list of invitees offers the only possibility of securing the Organization's role in the emerging global economic order and gives the U.S. a well-tested tool to help engineer it.

15. (SBU) Mission supports sending a strong signal to Brazil that the OECD wants to engage and would be open to Brazil's membership. Bringing this important regional and growing global player closer to OECD standards is worth the investment. Brazil's role in Latin America as well as the international trading system makes it a prime candidate for eventual OECD membership. Both Korea and Mexico did more than change the organizations to which they belonged when they joined the OECD: Korea signed on to ILO rules, while Mexico gave up its G-77 membership. As we hear from their representatives on a regular basis, these were part of changes overall in the way that they looked at and participated in the international economic system. It is important to see Brazil's potential in this light: inviting Brazil to begin accession talks is just the start of a process that will take years to complete - and only if Brazil meets the OECD aquis.

16. (SBU) Russia's status is unique, being the only country with which the Organization has formalized a "shared objective" of membership. Its absence from the group identified for membership would thus send Moscow a clear and negative signal. We leave to others to assess the effect this will have on Russia's reformers and reform efforts. It would, however, be a clear break with the status quo; USOECD believes it preferable to clarify it. Without conceding anything, the eventual May Ministerial statement could reasonably reaffirm the 1997 exchange of letters, yet make clear that negotiations on accession will not begin until Russia has demonstrated greater fulfillment of certain measures (e.g., Noburu criteria -- notably that of like-mindedness - or undertakings on the energy front, etc). Ministers might then task the Organization with elaborating concrete measures that could pave the way toward launching accession negotiations (these, again, could take an extended period and follow Russia's fulfillment of these conditions).

The other BRICS - China, India and South Africa

17. (SBU) OECD members recognize that the other BRICS - China, India and South Africa - have demonstrated their significance, although they may not yet be ready to embark on the accession path. We would recommend that these countries be considered as prime candidates for enhanced engagement as defined by the ERC and approved by Council and consider their accession at the earliest opportunity.

The EU Aspirants and Diversity

18. (SBU) Mission believes that the EU will insist on some signal that the eight EU member states not currently in the OECD will eventually join. EU country Ambassadors appear ready to move away from the position that all eight are ready now and should receive invitations. The sense here is that inclusion in an enlargement package of at least one EU member will be essential to EU member state agreement. Non-EU members, including Canada, Japan and Australia, are likely to object at first, but in the end would probably agree, as long as other regions were well represented. USOECD would recommend supporting such an outcome as long as there was no implied automaticity for eventual membership by all of the eight and that the Noburu criteria be fulfilled in all cases.

19. (SBU) While recognizing that neither of the Asian BRICS is ready for or has shown a strong interest in beginning an accession process, Australia, Japan, Korea and New Zealand continue to argue that all of the BRICS should be priority countries for eventual membership. To meet some of their diversity concerns, we should look closely at key regional players (e.g., Thailand, Indonesia, Malaysia and Egypt) as prime candidates for enhanced engagement, possibly through regional programs along the lines of MENA. This would signal to these countries as well as the non-EU OECD Members that the Organization is serious about addressing today's global economic challenges.

Enhanced Engagement

110. (SBU) The ERC has developed a well defined model for enhanced engagement (EE) that the OECD should be able to employ once decisions have been taken by Members to move forward the enlargement and engagement process. The EE model currently has two main components - EE for individual countries, which we consider to be the most important component - and a regional component. As now defined, the individual country model would provide for an agreement negotiated with each selected partner country with the following elements: (1) a periodic peer-reviewed economic survey (every 18-24 months) like those currently done on member countries; (2) a series of sectoral peer reviews with a focus on encouraging adherence to OECD instruments (investment, anti-corruption, corporate governance, competition, environment, capital movements, taxation, etc.); (3) a series of policy dialogues to promote capacity building in areas where the partner country is not yet ready to accept OECD disciplines; (4) participation in OECD bodies - usually as observers; (5) access to OECD documentation through the Organization's online system (restricted to selected policy areas); (6) participation in OECD global forums and regional programs; and (7) opportunities for officials of partner countries to serve in training or expert capacity in the OECD for limited periods.

111. (SBU) The agreement negotiated with partner countries and approved by the Council would be for a 3-5 year period. It would be renewable if there had been sufficient progress by the partner country, but could likewise be allowed to lapse if there had not been suitable progress toward convergence with OECD principles and practices. Partner countries would accept responsibility for their progress under the agreement and would shoulder a significant portion of the costs. A number of delegations support our view that EE for individual countries is a resource intensive effort and should be limited to countries of "strategic interest" to the OECD. This could include BRICS that are not yet ready for accession talks, as well as other countries deemed to be of "strategic interest." The goal would be primarily to enhance the OECD's policy influence

among non-member countries and to encourage adherence to OECD principles and practices. It would, however, also be an excellent vehicle for helping countries prepare for future membership.

¶12. (SBU) Proposals for the regional approach to EE are not yet as well developed or as broadly accepted as those for individual programs. Based on current thinking (still to be developed in more detail), regional EE programs would include many of the same elements as elaborated above, but would be geared to the needs and circumstances of selected geographic regions, including continuation or expansion of existing programs for the Middle East and North Africa, Africa and Southeast Asia - with the establishment of new programs for regions such as Latin America where no regional program currently exists. Such regional programs would, by virtue of their nature, be better suited to spreading OECD influence regionally, but would be less effective in helping individual countries make rapid progress in convergence toward OECD disciplines.

Financing Questions

¶13. (SBU) While Council has been considering which countries to invite to begin the accession process and while the ERC has been developing enhanced engagement, the Special Group on Financing has developed options for financing both. We have urged, apparently successfully, that financing enlargement and enhanced engagement should not be separated from the issue of long-term financial sustainability of the OECD. For years the largest contributors have carried the financial burden. USOECD, and a number of other "large" countries believe that it may be time to shift some of that burden - in particular as both enlargement and engagement will make additional financial demands. The major contributors have argued that contributions must reflect the reality that OECD membership involves benefits, obligations and costs and that all Members should strive to cover recurring costs of participation (although special consideration would be provided to the smallest members who would otherwise see ten-fold increases to cover their recurring costs). A key element would include holding large countries' (including the U.S.) contributions at their current level, resulting in a declining share for them. This debate is tied intimately to enlargement and would not be occurring without it.

Morella